

Message Text

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R 241848Z MAY 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 2023
INFO AMEMBASSY BONN
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USMTN

PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 15067, MAY 11, 1978
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1. SUMMARY

P.M. BARRE HAS UNDERTAKEN A MAJOR PUBLIC RELATIONS
PROGRAM TO EXPLAIN HIS ECONOMIC POLICY DESIGNED TO
"LIBERALIZE" THE FRENCH ECONOMY OVER THE NEXT SEVERAL
YEARS. INDUSTRIAL PRICES WILL BE LIBERATED STARTING

IN JUNE AND MEASURES WILL BE TAKEN TO DIRECT SAVINGS TOWARD INDUSTRIAL ACTIVITY, BUT A FIRM CLAMP WILL BE KEPT ON THE EXPANSION OF CREDIT AND THE GROWTH IN REAL PURCHASING POWER. ECONOMIC ACTIVITY CONTINUES TO INCREASE BUT AT A VERY MODERATE RATE. THE POSITIVE RESULT HAS BEEN AN EXTERNAL TRADE SURPLUS FOR THE THIRD MONTH IN A ROW BUT WITH THE NEGATIVE RESULT OF A FURTHER INCREASE IN THE RATE OF UNEMPLOYMENT. END SUMMARY

2. BARRE EXPLAINS HIS ECONOMIC PROGRAM

AFTER A LONG PERIOD OF POST-ELECTION SILENCE DURING WHICH THE GOVERNMENT HAS BEEN HARD AT WORK DRAWING UP AND IMPLEMENTING ITS ECONOMIC PROGRAM, INCLUDING THE HIGHLY UNPOPULAR INCREASE IN PUBLIC TARIFFS, P.M. BARRE IS NOW ENERGETICALLY ATTEMPTING TO EXPLAIN HIS ECONOMIC POLICY TO THE PUBLIC. HIS PRINCIPAL THEMES ARE THAT THERE HAS BEEN NO CHANGE IN GOVERNMENT POLICY AND THAT THE BLOIS PROGRAM WILL BE APPLIED. AMONG THE MAIN POINTS THAT HE HAS MADE DURING THE PAST WEEK ARE:

A. PRICES -- THE LIBERATION OF INDUSTRIAL PRICES WILL NOT INVOLVE A REKINDLING OF INFLATION BECAUSE THE FRANC IS STRONG, THE GROWTH OF THE UNCLASSIFIED

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MONEY SUPPLY IS CONTAINED, THE FRENCH HAVE ACCEPTED A MODERATION OF THE GROWTH OF THEIR REVENUES, AND THE GOF WILL INSIST ON COMPETITION. FIRMS WILL BE HELD TIGHTLY IN LINE BY A STRICT CREDIT POLICY AND BY NOT RESORTING TO PROTECTIONISM.

B. FIRMS IN TROUBLE -- ALTHOUGH THE GOF WILL NO LONGER SUBSIDIZE BADLY MANAGED FIRMS, IT WILL COME TO THE AID OF THOSE FIRMS WHICH MAKE A GENUINE EFFORT TO RESOLVE THEIR FINANCIAL PROBLEMS, PARTICULARLY SMALL AND MEDIUM-SIZE FIRMS. A BILL PROVIDING FOR NEW FINANCIAL MECHANISMS WILL BE INTRODUCED BEFORE THE END OF THE MONTH. ALSO, REGIONAL EFFORTS WILL BE MADE FOR THOSE AREAS HARD-HIT BY SECTORAL DIFFICULTIES.

C. PURCHASING POWER -- ONLY THOSE WORKERS WITH THE LOWEST INCOMES WILL BE ALLOWED ANY INCREASE IN REAL PURCHASING POWER, WHILE NOMINAL SALARIES HIGHER THAN FF 30,000 PER MONTH WILL BE BLOCKED.

D. TAX GRACE PERIOD -- THE MAINTENANCE OF THE TWO-YEAR "FISCAL PAUSE" PROVIDED FOR IN THE BLOIS PROGRAM IS "STILL POSSIBLE."

BARRE MADE NO MENTION OF THE PROMISED MEASURES IN FAVOR

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R 241848Z MAY 78
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OF DIRECTING SAVINGS TOWARD THE INDUSTRIAL SECTOR, BUT
REPORTEDLY A BILL TO THIS EFFECT WILL BE PRESENTED
BEFORE THE END OF MAY.

3. GOF BORROWING FULLY SUBSCRIBED

THE GOF BORROWING FOR FF 3 BILLION AT 10 PERCENT
INTEREST WAS FULLY SUBSCRIBED ON ITS FIRST DAY OF
ISSUE, MAY 22. ACCORDING TO PRELIMINARY REPORTS THE

BORROWING WAS EQUALLY SUCCESSFUL WITH BOTH PRIVATE
INDIVIDUALS AND INSTITUTIONAL INVESTORS.
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4. OFFICIAL FORECAST FOR GDP TO BE REVISED DOWNWARD

ACCORDING TO MR. PAPON, MINISTER OF THE BUDGET, THE
COMMISSION OF NATIONAL ACCOUNTS, WHICH WILL MEET
IN JUNE, WILL SUBMIT A NEW ECONOMIC FORECAST FOR
1978 AND 1979. PAPON SAID THAT IT WAS PROBABLE THAT
THE ESTIMATE FOR THE GROWTH OF GDP IN 1978 WOULD BE
REVISED DOWNWARD FROM 4.5 PERCENT TO AROUND 3.5
PERCENT WHILE THE ESTIMATE FOR THE RATE OF INFLATION
WOULD BE BETWEEN 8-9 PERCENT.

5. 1978 BUDGET DEFICIT ESTIMATED TO BE UNDER FF 20
BILLION

MR. PAPON INDICATED THAT THE RETURNS FROM
THE VALUE ADDED TAX HAVE, TO DATE, BEEN FF 3-5 BILLION
LOWER THAN FORECASTED. HOWEVER, RETURNS FROM INCOME
TAXES HAVE BEEN SLIGHTLY HIGHER THAN EXPECTED. PAPON
SAID THAT THE 1978 GOF BUDGET DEFICIT WOULD NOT EXCEED
FF 20 BILLION AND THAT IT WOULD BE FINANCED BY
TREASURY BONDS ISSUED TO THE PUBLIC.

THE FIRST SUPPLEMENTARY 1978 BUDGET PROVIDES FOR
ADDITIONAL EXPENDITURES OF FF 4.33 BILLION, OF WHICH
FF 3.5 BILLION IS FOR EMPLOYMENT. PART OF THIS IS FOR
THE ADDITIONAL COST OF THE 1977 EMPLOYMENT PACT, DUE TO T
THE FACT THAT THE NUMBER OF PARTICIPANTS WAS 550,000
RATHER THAN 300,000 AS ORIGINALLY PROVIDED FOR. THE
SUPPLEMENTARY BUDGET WAS PRESENTED IN EQUILIBRIUM,
THE NEW CHARGES BEING COMPENSATED BY RECEIPTS FROM
NEW SOURCES.

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6. CONTROL MEASURES ON BANK CREDIT NOT TO BE
RELAXED THIS YEAR

IN RESPONSE TO RECENT CRITICISM BY THE PRESIDENTS
OF CREDIT COMMERCIAL DE FRANCE AND CREDIT AGRICOLE OF
THE GOF'S CREDIT CONTROL MEASURES, THE GOVERNMENT
HAS ANNOUNCED THAT THESE MEASURES WILL NOT BE

ELIMINATED OR RELAXED BEFORE NEXT FALL. THE
"ENCADREMENT" OF CREDIT, WHICH SETS MONTHLY LIMITS
ON THE EXPANSION OF BANK CREDIT BEYOND WHICH PENALTY
RESERVES ARE APPLIED, HAS A TARGET OF A 13.2
PERCENT INCREASE IN TOTAL BANK CREDIT FOR THIS YEAR.

7. REPORTS ON ECONOMIC ACTIVITY IN APRIL

THE BOF REPORTED THAT INDUSTRIAL ACTIVITY DID NOT
SHOW ANY NOTABLE CHANGE IN APRIL AS WITH REGARD TO
MARCH. THERE CONTINUED TO BE A MARKED VARIATION IN
ACTIVITY ACCORDING TO THE INDUSTRIAL BRANCH. ACCORDING
TO THE BOF, THE DEVELOPMENT OF DEMAND WAS MUCH
MORE MODERATE IN APRIL AFTER THE STRONG PUSH IN
BOTH FOREIGN AND DOMESTIC ORDERS, OBSERVED IN MARCH.
BACK ORDERS REMAINED AT A WEAK LEVEL. COMPANY HEADS
EXPECT GROWTH DURING THE NEXT FEW WEEKS TO BE ONLY OF
A SEASONAL NATURE.

"LES ECHOES" TOOK A MORE POSITIVE TONE IN ITS
ANALYSIS OF DEVELOPMENTS IN THE FRENCH ECONOMY DURING
APRIL. THE VOLUME OF ACTIVITY CONTINUED TO
STRENGTHEN ALTHOUGH AT A VERY MODERATE RATE.
STRONG POINTS WERE HOUSEHOLD CONSUMPTION AND THE
STRENGTHENING OF ACTIVITY IN THE INTERMEDIATE GOODS
SECTOR, PARTICULARLY FOR STEEL. A POSITIVE
INDICATION FOR MAY IS THE HIGHER LEVEL OF NEW CAR
ORDERS.

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8. RECOVERY IN HOUSEHOLD CONSUMPTION

ACCORDING TO INSEE, HOUSEHOLD CONSUMPTION SHOWED A CLEAR
RECOVERY IN MARCH AND APRIL, AFTER HAVING INCREASED AT

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R 241848Z MAY 78
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A MODERATE RATE FROM MID-1977.

9. EXTERNAL TRADE SURPLUS IN APRIL

THE FOREIGN TRADE BALANCE REGISTERED ITS THIRD
CONSECUTIVE SURPLUS IN APRIL. THE SURPLUS ON A
SEASONALLY ADJUSTED BASIS WAS FF 692 MILLION, DOWN
FROM FF 1,192 MILLION IN MARCH. BOTH EXPORTS AND
IMPORTS WERE LOWER THAN IN THE PREVIOUS MONTH,
EXPORTS BEING FF 29,426 MILLION, DOWN FROM
FF 31,133 MILLION AND IMPORTS FF 28,734 MILLION,
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DOWN FROM FF 29,941 MILLION.

A MAJOR CONTRIBUTOR TO THE IMPROVEMENT IN THE TRADE
RESULTS HAS BEEN THE AGRICULTURAL SECTOR, ITS
DEFICIT DURING THE PAST THREE MONTHS AMOUNTING TO AN
AVERAGE OF ONLY FF 160 MILLION COMPARED TO FF 600
MILLION DURING THE PREVIOUS SIX MONTHS. THE TRADE
BALANCE HAS ALSO IMPROVED FOR SEMI-FABRICATED METAL
PRODUCTS AND CHEMICALS, WHEREAS THERE HAS BEEN NO
CHANGE FOR THE CAPITAL GOODS SECTOR DURING MORE THAN
SIX MONTHS. IN ADDITION, FRANCE'S TRADE BALANCE
WITH THE EC HAS VASTLY IMPROVED, ITS DEFICIT DURING THE

PAST THREE MONTHS AVERAGING FF 170 MILLION, COMPARED TO FF 1,200 MILLION DURING THE PREVIOUS SIX MONTHS. HOWEVER, FRANCE HAS SUFFERED A SHARP DECLINE IN ITS EXPORTS TO EASTERN EUROPEAN COUNTRIES.

10. INDEX OF INDUSTRIAL PRODUCTION SETS NEW RECORD

THE MONTHLY INDEX OF INDUSTRIAL PRODUCTION WAS 130 IN MARCH, UP FROM 127 IN FEBRUARY. THIS INDEX, WHICH HAS INCREASED DURING EACH OF THE PAST FOUR MONTHS, BROKE THE PREVIOUS HIGH OF 129, SET IN MARCH 1977. THE AVERAGE FOR THE THREE-MONTH PERIOD ENDING IN MARCH WAS 128.

MONTHLY INDUSTRIAL PRODUCTION INDEX
(THREE MONTH MOVING AVERAGE, SEASONALLY ADJUSTED, 1970100)

	1978
	MAR 1977 JAN FEB MAR
TOTAL (EXCLUDING BUILDING	
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AND PUBLIC WORKS)	128	125	125	128
ENERGY	125	125	127	129
INTERMEDIATE GOODS	119	112	114	118
CONSUMER GOODS	140	139	136	139
CAPITAL GOODS	147	146	146	145

THE QUARTERLY INDEX OF INDUSTRIAL PRODUCTION REGISTERED A SLIGHT DECLINE DURING THE FOURTH QUARTER OF 1977. THE INDEX FELL FROM 125 FOR THE THIRD QUARTER TO 124.

1977 QUARTERLY INDUSTRIAL PRODUCTION INDEX
(SEASONALLY ADJUSTED, 1970 100)

	1ST	2ND	3RD	4TH
TOTAL (EXCLUDING BUILDING				
AND PUBLIC WORKS)	129	125	125	124
ENERGY	125	118	117	119
INTERMEDIATE GOODS	121	119	119	114
CONSUMER GOODS	131	130	128	131
CAPITAL GOODS	141	135	139	137

11. FURTHER RISE IN UNEMPLOYMENT

UNEMPLOYMENT INCREASED AGAIN IN APRIL, FROM 1,086,100 TO 1,105,700 ON A SEASONALLY ADJUSTED BASIS. ON AN UNADJUSTED BASIS, IT FELL FROM 1,088,400 IN MARCH TO 1,065,200. SEASONALLY ADJUSTED OUTSTANDING JOB OFFERS DECLINED FROM 90,500 TO 89,500.

THE ESTIMATED UNEMPLOYMENT RATE NOW STANDS AT 5.3
PERCENT AS COMPARED TO 5.0 PERCENT IN JANUARY, 5.1
PERCENT IN FEBRUARY, AND 5.2 PERCENT IN MARCH.

12. BUSINESS BANKRUPTCIES REMAIN AT HIGH LEVEL

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ALTHOUGH THE NUMBER OF BUSINESS BANKRUPTCIES IN APRIL
WAS SLIGHTLY LESS THAN IN MARCH, 1,343 VERSUS 1,504
ON A SEASONALLY ADJUSTED BASIS, THE TREND HAS BEEN
TOWARD AN INCREASE SINCE MID-1976. THE SECTORS WHICH
HAVE BEEN PRIMARILY AFFECTED ARE BUILDING AND PUBLIC
WORKS, NON-FOOD COMMERCE EXCLUDING TEXTILES, AND
MOST RECENTLY TRANSPORT AND HOTELS, CAFES AND
RESTAURANTS. INDUSTRY APPEARS TO HAVE STABILIZED
AT A HIGH LEVEL, EXCEEDING THE POINT ATTAINED IN THE

SECOND HALF OF 1975.

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13. GOF ANNOUNCES SECOND EMPLOYMENT PACT

THE GOF HAS RENEWED ITS PACT FOR EMPLOYMENT FOR 1978 BUT HAS ALLOCATED ONLY FF 3 BILLION AS COMPARED TO FF 5 BILLION LAST YEAR. UNDER THE CONDITIONS OF THE NEW PROGRAM, ONLY FIRMS WITH LESS THAN 500 EMPLOYEES OR WITH A TURNOVER OF LESS THAN FF 100 MILLION WILL BE ELIGIBLE FOR AID. FIRMS WILL BE EXONERATED THROUGH JUNE 1979 OF 50 PERCENT OF ALL SOCIAL CHARGES FOR NEW JOBS FOR YOUTHS FROM 18 TO 26 YEARS OLD AND LESS THAN ONE YEAR OUT OF SCHOOL OR MILITARY SERVICE AND FOR CERTAIN CATEGORIES OF SINGLE WOMEN OLDER THAN 26 YEARS. FIRMS WILL BE FORCED TO PROVE THAT THESE ARE SUPPLEMENTARY JOBS AND NOT JOBS WHICH WOULD HAVE RESULTED FROM THE NORMAL TURNOVER. (ADDITIONAL DETAILS WILL BE REPORTED IN SEPTEL).

14. BUSINESS ECONOMISTS PREDICT MODERATE RECOVERY THROUGH 1979

THE FRENCH ASSOCIATION OF BUSINESS ECONOMISTS PREDICTS A MODERATE INCREASE IN INDUSTRIAL ACTIVITY THROUGH 1979 DUE TO A RECOVERY IN INVESTMENT (2.5 PERCENT IN 1978) AND A SLIGHT IMPROVEMENT IN CONSUMPTION (3.3 PERCENT). THE CAPITAL GOODS AND CONSUMPTION INDUSTRIES WILL BENEFIT, BUT THERE SHOULD BE NO SUBSTANTIAL IMPROVEMENT IN INTERMEDIATE GOODS OR PUBLIC WORKS. THE RECOVERY WILL, HOWEVER, BE TOO MODERATE (3 - 4 PERCENT) TO REABSORB UNEMPLOYMENT WHICH SHOULD STABILIZE BETWEEN 1,100,000 AND 1,150,000.

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FOR 1979 THESE ECONOMISTS PREDICT A CONTINUATION OF PRESENT TRENDS. THE RATE OF INFLATION SHOULD BE LOWER, WHILE THERE MAY BE A VERY SLIGHT ACCELERATION OF INDUSTRIAL GROWTH. THEY FORECAST A 3.8 PERCENT RATE OF GROWTH IN 1979, EXTERNAL EQUILIBRIUM, AND BUSINESS INVESTMENT IN THE ORDER OF 4 - 5 PERCENT.

15. FALL IN MONEY MARKET RATES

TO THE SURPRISE OF MANY MARKET DEALERS, THE OVERNIGHT MONEY MARKET RATE FELL MAY 23 TO 7 3/4 PERCENT, THE FIRST TIME IT HAS BEEN BELOW 8 PERCENT SINCE JULY 1976. MARKET OPERATORS HAVE RECENTLY BEEN EXPECTING A FALL IN THE OFFICIAL DISCOUNT RATE FROM ITS CURRENT LEVEL OF 9 1/2 PERCENT BUT GENERALLY THOUGHT THAT THE DAY-TO-DAY RATE HAD BOTTOMED OUT AT 8 PERCENT. OTHER MONEY MARKET RATES FOLLOWED, THE ONE MONTH MARKET RATE FALLING FROM 8 1/16 - 3/16 TO 7 7/8 - 8 PERCENT AND THE THREE MONTH RATE FROM 8 1/4 - 3/8 TO 8 1/8 - 1/4 PERCENT. PRESSURE WILL NOW INCREASE TO CUT THE BANK BASE RATE OF 9.30 PERCENT.

THE GOF MADE NO MOVE TO PREVENT THE FALL BUT HAS NOT CHANGED ITS OWN INTERVENTION RATES. SOME DEALERS INTERPRET THIS AS TESTING THE FOREIGN EXCHANGE MARKET. THE DECLINE IN MONEY MARKET RATES HAS HAD NO IMMEDIATE IMPACT ON THE FRANC; IN FACT, IT STRENGTHENED WITH RESPECT TO BOTH THE MARK AND THE DOLLAR WITH VIRTUALLY NO CHANGE AGAINST THE SWISS FRANC IN EARLY TRADING ON MAY 24.

16. GOF PLANS MODIFIED FORM OF CAPITAL GAINS TAX

THE CAPITAL GAINS ON STOCK-MARKET TRANSACTION, WHICH WAS A CAUSE OF SO MUCH UNCLASSIFIED

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INTERNAL GOVERNMENT DISSENSION IN 1976 AND WHICH WAS FINALLY DISMISSED BY BARRE IN APRIL 1977 AS INAPPLICABLE, HAS RESURFACED IN A MODIFIED FORM. THE

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CABINET ADOPTED A DRAFT BILL ON MAY 24 WHICH WOULD
INSTITUTE A CAPITAL GAINS TAX, TO TAKE EFFECT
JANUARY 1, 1979. THE MODIFIED TAX WOULD EXEMPT
SMALL SHAREHOLDERS FROM TAXATION AND REDUCE TAXATION
LEVELS FOR MOST PEOPLE, WITH THE EXCEPTION OF
THOSE WHO GAIN MOST OF THEIR REVENUE FROM
CAPITAL GAINS ON STOCK TRANSACTIONS.
OTHER REPORTS SUBMITTED DURING THE PERIOD:
TELEGRAMS:
16170 POSITIVE ADJUSTMENT POLICIES
15933 OECD INTERFUTURES PROJECT
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15092 TURKISH DEBT RESCHEDULING
14740 SUMMIT PREPARATIONS
14407 SUMMIT PREPARATIONS

AIRGRAMS:
A-L29 FRENCH RESERVES IN APRIL 1978
A-128 FRENCH FOREIGN EXCHANGE HOLDINGS
A-126 TRADE WITH SOVIET BLOC, ALBANIA, CHINA,
NORTH KOREA, VIETNAM, OUTER MONGOLIA,
AND CUBA
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 24 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PARIS16535
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780221-0184
Format: TEL
From: PARIS USMTN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780524/aaaaatrv.tel
Line Count: 599
Litigation Code IDs:
Litigation Codes:
Litigation History:
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Message ID: c353c397-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 PARIS 15067
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2586723
Secure: OPEN
Status: NATIVE
Subject: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS
TAGS: EALR, EFIN, EGEN, FR
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/c353c397-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014